

**INDIAN LABOUR
AND
POST-WAR RECONSTRUCTION**

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PREFACE

This paper was written towards the end of last year. Previous to that, fragmentary reports had been coming from England about the various schemes of post-war reconstruction adumbrated there from different quarters. The reports conveyed the impression that, while diagnosing the disease more or less correctly, all the schemes had a common defect. The remedies prescribed were all in the nature of palliatives, such as international trade agreements, pooling of raw materials, currency jugglery, etc. The Report of the London Chamber of Commerce, subsequently received in this country, bore out that first impression created by brief summaries cabled out. Therefore, I thought it might be helpful to publish this paper which outlines certain principles of post-war reconstruction, and therefore may be regarded as a contribution to the discussion on that subject.

I have taken the liberty of reprinting extracts from the Report of the London Chamber of Commerce as appendices to this booklet, because they substantiate my analysis of the cause of the post-war economic crisis which will have to be overcome by the introduction of planned production. As production cannot be planned so long as it takes place for exchange, there must be some change in the motive of production if the world is to be really reconstructed after the war. And the problems of production cannot be properly approached if they are not visualised from the point of view of labour. This paper, therefore, is written from that point of view, although due importance has been given to all the factors involved in the process.

M. N. ROY.

Dehradun, May 15, 1943

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All economists may not as yet accept ~~fully~~ ^{not true} the theoretical proposition that labour creates all value. But if the proposition is stated differently, there is bound to be a greater measure of agreement. The modified statement is that labour is the creator of all wealth. The distinction between wealth and value is a subtle theoretical point which may be left out of the scope of this paper, which deals mainly with the practical problems of post-war reconstruction and the part Indian labour can take therein.

This war is causing wholesale destruction. The world is bound to be seriously impoverished by it. The fundamental problem of post-war reconstruction, therefore, will be one of creating wealth quick enough. The allied problem of distribution, of course, will also have to be solved. But the problem of production is the prior problem. Therefore, labour is bound to occupy the central place in the scheme of post-war reconstruction.

If the impoverishment, caused by the war, will not be counter-acted quick enough by the creation and equitable

distribution of new wealth, then, even the defeat of Fascism may not prevent a serious setback to human progress, to the extent of a possible breakdown of modern civilisation and the consequent relapse into barbarism. Big wars, producing such tragic results, are not unknown in history. The last great war almost brought about a similar tragedy. In a way, it did have that consequence. Fascism was bred in the conditions of economic disorganisation and social chaos created by the last world war, as well as by the peace treaty which concluded it only superficially.

Wars always cause impoverishment. But in our times, the evil is not unmixed. Not only during the period of preparation, but even actually in the midst of the wars of our time, old means of production are improved, and new ones are forged. Improved and new means of production make for the economy of human labour. Therefore, they can compensate for the loss in human life suffered by society in a war. That being the case, the problems of post-war reconstruction should not be baffling, if the sovereignty of labour in the process of production will only be fully recognised.

Conventionally, the post-war period will be marked by an economic crisis—of so-called over-production. The qualifying term "so-called" is used deliberately. Because, over-production is always imaginary. It may have some reality from the point of view of exchange for profit, which is called trade. But from the point of view of use, production, generally speaking, (not of any particular commodity), can never be excessive. Useful goods (and luxury also has utility) cannot be disposed of, only

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when the power of consumption of the world as a whole does not keep pace with the growth of production. Owing to the wide-spread impoverishment, which will be caused by the present world war, the disparity between the possibility of production and actual capacity for consumption will be greater. That will be the cause of the post-war economic crisis. The problem of post-war reconstruction will, therefore, be how to remove that cause.

The social value of labour has to be assessed not only as the producer, but also as the consumer. Such a comprehensive view alone can combine production with distribution. If labour is to be treated simultaneously as producer and consumer, then countries like India, which have until now remained in the backwaters of the world, will assume great importance in the scheme of post-war reconstruction. Because, the bulk of labour in this country is to be appreciated, at present, and perhaps for yet some time to come, rather as consumer than as producer. Its development as such will directly contribute to the solution of the economic crisis which will overtake the more industrialised countries of Europe and America after this war.

But also in its fundamental capacity of producer, Indian labour is bound to influence post-war reconstruction of the world. It would be foolish to tackle the problem of creating new wealth at a sufficiently rapid tempo, so as to avert the danger of a breakdown of modern life under the pressure of wide-spread impoverishment, by leaving out of account the vast reserve of Indian labour, which has as yet been hardly

touched by modern technique of production. But mankind cannot be benefitted by that almost untouched gift of nature, if the scheme of post-war reconstruction fails to provide for raising India's capacity to consume. That will quicken the productivity of Indian labour, and increased productivity of labour is the basis of all social progress and civilisation. On that token, India should be the richest country of the world, and as such should be given an important place in the scheme of post-war reconstruction, to be at the forefront of the civilisation of to-morrow.

The Indian population is mostly labouring. The leisure-classes constitute a very small fraction, comparatively, of the Indian people. More than ninety per cent. of the people of the country earn their livelihood by the sweat of the brow. Ninety per cent. of a population of four hundred million represent a vast army of labour. Since labour is the creator of wealth, India should be the wealthiest country of the world. But she is not. She is one of the poorest countries of the world. This anomaly is due to the fact that a good deal of Indian labour is wasted. Its productivity remains on a very low level, and it has remained there stationary for ages. Only a small fraction of Indian labour has been affected by the introduction of the modern means of production during the last generation or two. If the world is to be regarded as a whole, as the common home of the human race, then India's poverty means poverty of the world. For the sake of the post-war reconstruction of the world, this lamentable situation should not be allowed to continue. The task of the post-war period will be to rescue from

impoverishment the countries which have had the misfortune of being devastated by the war. India is in a position to help the accomplishment of that task very greatly. Her vast reservoir of labour should be tapped for that purpose.

Increased productivity of Indian labour and the parallel expansion of the capacity to consume will make India such a gigantic factor in world economy as will win for her a correspondingly important place in the scheme of post-war reconstruction. Greater productivity of labour will increase wealth, and in order to remove all obstacles to that process, the increasing wealth must be widely distributed. That will make of India a prodigious buyer in a very short time. As such, she will contribute largely to the solution of the economic crisis of "over-production" in the more industrialised countries impoverished by the devastations of the war.

It is generally known that India has a vast population, which has been growing rapidly in recent times. The growth of her population might be ascribed to prosperity. An investigation into the cause of the rapid growth of the Indian population is outside the scope of this paper. But it should be emphasised that the growth is not due to prosperity. It may also be mentioned that general prosperity is known to have the contrary consequence.

Though it is generally known that India has a vast population, there are queer notions about how it is divided. It is taken for granted that in India the population is divided by religion, community, caste and language. That is a picture of India which is no more. The Rajas and Nawabs, Brahmins

and Untouchables, Hindus and Muslims, martial races and Depressed Classes, are all still there. But India, *as an economic unit*, is composed of peasants and workers, landlords and traders, industrialists and merchants, and such other social factors operating in all other countries. Yet, the vertical lines of demarcation, dividing the Indian population into religions, communities, castes and linguistic groups, are drawn heavily on the Indian picture not only by the man in the street who gets his information from travellers' diaries, but also by statesmen holding the destiny of India in their hands.

The fact, however, is that in a picture of India, as she is today, theoretical lines of demarcation are cut across by class divisions. Just as in other countries, in India also the people is divided in social classes. These horizontal lines of social division cut across not only all the religious, communal and linguistic groups; they divide even the castes which originally represented division of labour. Today, people belonging to the self-same caste are found to perform all sorts of labour. Thousands of people, Brahmins by caste, are engaged in occupations which traditionally are allotted to the lower castes. Conversely, people belonging to the lower castes, today, perform social functions which they would not be allowed to do by tradition. As division of labour, and prescription of social function, the caste system is a thing of the past. It has lost all bearing upon the economic life of contemporary India.

Nevertheless, it is a fact that the lines of social demarcation are less distinct in India than in the European and American countries. That fact accounts for the persistence in

popular imagination of the picture of an India which belongs to the past. The fact, however, does not represent any peculiarity inherent in the social structure of India. It is the symbol of her economic backwardness. Indian society still remains very largely agrarian. And an agrarian society, even when it exists in the modern world, is necessarily based on feudal relations. Vertical division of society into castes or communities is the characteristic feature of feudal society.

In an agrarian society, land is the main means of production. The bulk of social labour is performed on land. Cultivation of land taking place under feudal relations of property does not permit introduction of the modern means of production. Consequently, the productivity of labour remains very low. The bulk of the total social labour has to be devoted to the production of food, just enough for bare subsistence and reproduction. Under such economic conditions, society stagnates. There is no appreciable increase in the creation of wealth. A considerable part of whatever is created is appropriated by a leisure-class which enjoys a parasitic existence. Consequently, society as a whole remains in poverty. By and large, that is the economic situation of India even today. Her potential riches are being misused—wasted.

India being overwhelmingly an agrarian country, the peasantry is the most numerous class of the contemporary Indian society. The rest is divided, just as in any other country, into landlords, industrialists, traders, artisans and industrial labour. This latter is so very minute, compared with the vastness of the Indian population, that it cannot be the measure

of the importance that Indian labour is bound to have in the scheme of post-war reconstruction. Indian labour, treated in this paper, includes the labour of the peasant masses performed on land. The diversion of a considerable portion of that labour into more fruitful channels of employment will enable India to become a decisive factor in world economy. Two things are to be done. Firstly, labour must be released from the primitive social function of producing food for a bare existence. For that purpose it must be freed from the bondage of decayed feudal relations. And secondly, it must be more fruitfully employed through the introduction of modern means of production both in agriculture and industry.

But that is only a very general prescription of remedy for a very complicated disease. The details of the treatment will become clear in course of a more searching analysis of the situation as it exists. The first thing to be done is to dispose of an imaginary picture which only misleads.

The class of industrial workers, as known in the European and American countries, is practically non-existing in India. Modern manufacturing industries began to be established already in the closing years of the last century. But only during the last two to three decades they have come to occupy an important place in the economic life of the country. At present, the total number of workers employed in modern manufacturing industries, together with mining and mechanical transport, is not more than five millions. The figure can be given only approximately, because the final report of the last census, taken in 1941, is not yet available. Moreover, even to-day the

census counting in this country is done according to religions, communities and castes. Occupational figures are not clearly given. On the other hand, there has never been any census of production, and there are practically no statistical data regarding the personal composition of modern industries. Furthermore, any figure of industrial workers deduced from the report of the last census will now be out of date, because since then there has been some industrial expansion, providing more employment. The process of industrial expansion forced by the exigencies of the war can be expected to proceed further, and its speed may also be accelerated. Therefore, by the end of the war, the number of industrial workers in this country will be somewhat larger. But even then it will remain almost negligible compared to the vastness of the population. That is to say, the basic weakness of the Indian society will not be removed. The bulk of social labour will still be employed wastefully. The removal of that weakness must be considered as a part of the whole problem of post-war reconstruction. Because, unless that weakness is removed, India will not be able to make any contribution to the solution of that problem.

The class of industrial workers being relatively so very insignificant in India, there has been no outstanding event in the history of the labour movement of the country. There have been big strikes, and some of them were marked by violent outbursts. A characteristic feature of strikes in India has been the ability of the strikers to hold out for long periods of time. That might be taken for the strength of the movement. As a matter of fact, it has been interpreted by superficial en-

thusiasts as evidence of a great revolutionary fervour and remarkable sense of class solidarity on the part of the Indian working class. The truth, however, is that some strikes have been very long owing to the strikers going to their village homes when they could not earn a livelihood in the cities. That reveals the very significant fact that Indian industrial labour is not yet differentiated from the peasantry. In other words, it is not yet constituted as a class by itself. In such a position, it can hardly be expected to function as an independent factor influencing the social and political life of the country.

The numerical weakness of the class of industrial workers is again a symbol of social stagnation. Modern industries have not grown sufficiently so as to attract labour away from the wasteful employment on land under feudal conditions. Low productivity of the bulk of social labour has prevented the growth of wealth. And whatever little wealth was produced has been appropriated by a small privileged class protected by feudal relations. Consequently, the vast bulk of the population has remained in poverty, keeping the purchasing power of the country on a very low level. That, in its turn, has placed a decisive check on the growth of modern industries. This combination of circumstances creates a problem which will be the peculiar problem of the post-war reconstruction of India herself.

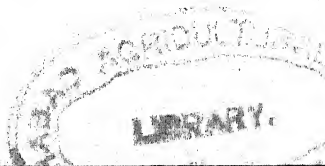
The problem appears to be baffling. It is a vicious circle. Industrial backwardness keeps the country poor, and the poverty of the country hinders the development of modern industries. But the problem ceases to be baffling, a way out of the vicious circle becomes evident, as soon as it is remembered

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that there is a world of difference between production for exchange and production for use. As soon as Indian production will be placed on the latter basis, the great asset of a vast reservoir of labour will assert itself on the situation and not only will the problem of Indian reconstruction be solved, but a big contribution will be made to the solution of the problem of post-war reconstruction of the world.

Thus, the basic ideal of the modern labour movement becomes applicable also to India, even if the labour movement in this country still remains weak, and the class of industrial workers may not as yet be fully conscious of their social importance and aspirations. The ideal is abolition of the private ownership of the means of production. That is not an ideal in the subjective sense. It is not a demand. It is visualised as a necessity for the progress of human society and modern civilisation after they have attained a certain level of development.

One principle which should guide the scheme of post-war reconstruction is to treat the world as a whole. Uneven development has been the cause of conflicts, which broke out periodically in devastating wars. Social and economic development in the different parts of the world may be co-ordinated, if it is guided by some generally accepted principles. No levelling is suggested. The economic development of particular countries may be adjusted to their respective natural resources, climatic conditions and geographical environments. But there must be co-operation instead of competition. It is not necessary to over-industrialise some countries and to hold



others forcibly in the backwardness of agrarian conditions, Even agrarian economy can be modernised, and the productivity of labour performed on land increased, through the introduction of the mechanical means of production.

As soon as that will be done on a sufficiently large scale, private ownership of the means of production, be it land or machine, will become superfluous. The idea of the abolition of the private ownership of the means of production is conceived by those who visualise that, in course of social evolution, private ownership will become superfluous. Once upon a time private ownership may have been necessary. But when it becomes superfluous, its abolition becomes a necessity. Because, a thing which no longer serves any social purpose, can be maintained only by anti-social efforts. Such efforts must cease if post-war reconstruction is to produce the desired result of protecting modern civilisation against the danger of recurring wars.

The first efforts to organise industrial labour in trade-unions were made towards the end of the last world war. Already at that time, there was some impetus to the growth of modern industries. Consequently, there was some influx of labour from the villages to the cities. The unstable conditions of the new urban life, together with the higher cost of living and other consequences of the war, caused a good deal of discontent, which broke out into strikes here and there. Those industrial disputes attracted the attention of public-spirited men, some of whom had come in touch with the labour movement in England and other foreign countries. The first All-India

Trade-Union Congress, held in 1921, may be considered to mark the beginning of the labour movement in India. The idea of the promoters of that conference was to build a labour movement in India after the English model. Even the name "Trade-Union Congress" was borrowed from England. But a labour organisation after the British model was simply not possible in India. Because, the craft basis does not exist. The development of the modern British workingman from his predecessor, the craftsman and artisan, was an un-interrupted process. Modern industry in Britain retained the old craft divisions. In India, handicraft industries were very largely destroyed in the competition with imported commodities manufactured abroad, particularly in Britain, with mechanical means of production. Consequently, the craftsman as a class very largely disappeared. They were driven back to agriculture instead of being drawn into the cities for industrial employment. Modern industries established later on, on a very inadequate scale, had to rely very largely on unskilled labour, which was gradually trained. The result was the absence of any sharp craft division among the Indian industrial workers. On such a basis, trade-unions of the British type cannot be built. The vastness of the country and the extreme slowness of the growth of modern industries placed almost insuperable obstacles to the organisation of all the workers employed in one branch of industry in a national organisation. Workers belonging to the same branch of industry, but employed in plants situated hundreds of miles apart, could not effectively combine, nor even feel a sufficiently keen sense of solidarity. Labour organisation

tended to be localised. Workers employed in different kinds of industries situated in the same place were often organised in one union. That sort of labour organisation was bound to be weak and ineffective.

The period of the beginning of the Indian labour movement, however, happened to be a period of general effervescence. The non-cooperation movement led by Gandhi was sweeping the country. For more than one reason, the urban areas were the main scene of the movement. The industrial workers also were drawn in. Although from the very beginning Gandhi set his face against promoting industrial disputes, strikes became integral parts of the nationalist non-cooperation movement. Other outstanding nationalist leaders concerned themselves with the labour movement, and the earlier trade-unions were set up often under their titular leadership. The auspices under which it was born inevitably influenced the political complexion of the Indian labour movement. The Trade-Union Congress, until 1929, remained an adjunct to the National Congress.

Nevertheless, all the time efforts were made by some people to bring the Indian labour movement in closer contact with the labour movement in Britain. Leading British trade-unionists visited India and some of the leaders of the Indian labour movement, who were not nationalist politicians, also established close connection with their colleagues in Britain. Meanwhile, younger people with advanced ideas appeared on the scene of the Indian labour movement. They overestimated the potentiality of Indian labour, and introduced into the move-

ment demands and slogans which had no bearing upon the realities of the situation. For a time, under their influence, the movement tried to be independent of the nationalist movement. But before long, there was a reaction, and the older relation between the Trade-Union Congress and the National Congress was re-established.

The situation continued like that until the present war broke out. Immediately, there was a sharp difference of opinion inside the Trade-Union Congress. One section maintained that the labour movement must remain loyal to the principle of international solidarity, and, having regard for the fact that Fascism was the avowed enemy of the working class, should advocate India's participation in the war against the Axis Powers. The nationalist leaders of the Trade-Union Congress, supported by the Communists, took up a different attitude. Characterising the war as an imperialist war, they declared that the Indian working class should have nothing to do with it.

The issue came to a head when the Nazis attacked the Soviet Union. The former section inside the Indian Trade-Union Congress insisted that the Indian working class could no longer remain neutral. As the differences could not be reconciled, there was a split in the movement. The labour leaders who did not approve of the nationalist politics met in the All-India Anti-Fascist Labour Conference, held in November 1941, under the presidentship of the writer of this paper, and decided to establish another central organisation of Indian labour, called the Indian Federation of Labour. The new

organisation as well as its inaugural conference declared in favour of India's participation in the war against Fascism, and advocated an independent political attitude on the part of the working class, whose ambitions could not be attained within the limitations of nationalism. The conference was attended by delegates from a number of large unions which had remained outside the Trade-Union Congress because of its political affiliation. Consequently, the newly established Federation, from the very beginning, embraced about seventy per cent. of organised labour, with a total membership of nearly 300,000. It grew rapidly in strength and influence, and within the course of one year came to represent about eighty per cent. of the organised labour of the country, with a total membership of nearly half a million.

Organisationally, the movement still remains very weak. Hardly twenty per cent. of the industrial workers are organised in trade-unions. And that also, to a very large extent only nominally. The low level of wages does not permit the bulk of industrial workers to pay any subscription regularly. Consequently, practically no union has any fund at its disposal. The weakness of the workers' organisation provides the employers with a plausible excuse not to accept the principle of collective bargaining. A number of labour legislations have been passed by the Provincial Governments as well as the Central Government. But they all deal with details and technicalities. There is no legislation on such fundamental questions as minimum wages, hours of labour and insurance.

The exigencies of the war, however, are compelling the

Government to recognise the importance of labour, and protective and ameliorative measures are being taken. But the attitude of the employers, on the whole, still remains unchanged. Consequently, measures taken by the Government cannot often be enforced. Many employers still refuse to deal with the workers collectively. And the Government seem to find it difficult to compel the employers to do so. But experience can be expected to tell upon the situation. The exigencies of the war may enable Indian workers to occupy a position of greater importance, from where they will be able to influence post-war reconstruction. The Indian Federation of Labour is very keenly alive to this great opportunity, and is trying its best to make the workers themselves conscious of it.

Although industrial expansion for the production of war supplies has created new employment, immediately, the conditions of Indian labour have deteriorated. Owing to the rising cost of living, real wages have fallen heavily. In some industrial areas, the cost of living has risen by two hundred per cent. Retail prices charged by small traders are usually much higher, and the workers have to pay them. The employers, as a rule, flatly refuse to consider any increase of wages on the ground that, once increased, it will be difficult to bring the wages back to a lower level after the war, when prices will fall. The Government have been trying to compensate the workers somewhat for the fall in real wages by the temporary arrangement of dearness allowances and war bonus. But most of the employers manage to find some excuse to evade the responsibility. On the other hand, conditions of war-time employment,

stipulated in Government Orders, place rigorous restrictions on the freedom of movement on the part of the workers.

Even if the heavy fall in real wages is not taken into account, the nominal wages still remain incredibly low. These low wages are justified on the ground that the standard of living of the Indian worker is also low. That obviously is a very fallacious argument. The low standard of living may be regarded also as the result of low wages. It is a vicious circle. If low wages are paid on the ground that the Indian workers' standard of living is low, a decisive check is placed on the increase of efficiency. An ill-fed, ill-clothed and ill-housed worker cannot be expected to be an efficient worker. The standard of living of the Indian workers, kept low by low wages, prevents the spread of literacy, and an illiterate worker as a rule cannot be an efficient worker, particularly when he has to work with modern machines.

It is argued that the low efficiency of the Indian worker is due to climatic conditions. That is true, to some extent. But that, at the same time, requires that industrial labour in this country must be performed under better conditions. The hardships caused by unfavourable weather-conditions must be mitigated by special amenities. The American Technical Mission, which visited India early in 1942, however, was "impressed with the good quality and excellent potentialities of Indian labour". In this connection, it reported : " The Indian is skillful with his hands and, given satisfactory working conditions and security of employment, is dependable and industrious. The labour training programme of the Government of India is

well-conceived and ably directed, but requires expansion. The programme should be greatly augmented, both in special institutions and in the industrial plants themselves."

If the employers generally will take an equally enlightened view, then Indian labour is sure to contribute handsomely to the post-war reconstruction not only of this country, but of the world as a whole.

Industrial plants are the proper school for training workers. They have been growing during the war. The growth has been inadequate, and it can be expedited. That was the view expressed in the Grady Mission's report. It said: "Though much has been accomplished—specially during the last year—to stimulate the war effort, and though some believe that maximum production has been reached under a voluntary system actuated by profit motive, much remains to be done before a complete mobilisation of India's resources is attained." But the Indian industrialists did not take kindly to this view. Because, they evidently did not relish certain recommendations made by the Grady Mission for speeding up war production in India.

The Supply Member of the Government of India, who occupied a high position in the biggest industrial firm of the country (Tata Iron and Steel) made the following observation while releasing to the press the Grady Mission Report. "In the matter of equipment, we must, as the Mission suggests, further intensify our production effort to meet the increasing needs....The Mission recommends a much more drastic rationalisation and regimentation of industry than has hitherto been attempted in India...In India, there are obvious difficulties about

wholesale rationalisation and regimentation...The regimentation of the economic life of the entire country is implied in the Mission's recommendations about industry."

Having very correctly observed that "recent events in South-Eastern Asia have greatly accentuated the importance of developing India's potentialities for war production," the Grady Mission came to the conclusion that, now "that India is an important unit of one of the principal fighting fronts, adequate production to feed that front—and, if possible, other fronts as well, is vital." Then it proceeded to make certain recommendations regarding the methods necessary for speeding up production in India. It wrote: "Under the emergency of war, there must be unification, co-ordination, restriction of initiative, subordination of the profit incentive and complete centralisation of the nation through its government...A basic change in production technique is needed; and mass production methods must be introduced. This will be a difficult task involving the provision of new equipment, the transfer of equipment from one shop to another, and the rearrangement of equipment within existing shops. But the task must be undertaken, and with it the more rigid control of materials, priorities and prices."

The Supply Member of the Government of India characterised the above recommendations as "drastic,"—by implication, not desirable. He also disapproved of the suggestion that measures taken in the United States and in the United Kingdom should also be introduced in India. The measures in question are: "Absolute prohibition of the manufacture of certain goods,

taking over by or for Government of plants that are not being efficiently worked, and instructions to industry to manufacture specified goods, whatever dislocation or loss of profit any such move may cause."

However, the report of the American Technical Mission was subsequently endorsed by the Government of India, but presumably with mental reservations on the part of the industrialists, without whose co-operation the recommendations of the Report can never be implemented. There is evidently a conflict between the Government and private industrialists. The former must hold the view that war production must be speeded up at all cost. The attitude of the latter, however, is determined by profit motive. So, it is a choice between private interest and public welfare. It is a choice for the Government. The exigencies of the war may force the choice, and thereby influence the whole course of post-war reconstruction.

Why should not industrialists favour expansion of production, while the market is guaranteed by the Government? In addition to some necessary interference with the unrestricted practice of *laissez faire*, which is inevitable in the case of emergency "rationalisation and regimentation," the spectre of over-production after the war haunts the Indian industrialists. During the war, the Government will buy the enlarged production. But for enlarging production, industrial plants must be expanded. As soon as the war is over, the kind of things produced must change, and they will have to be sold in the open market. If the latter does not expand substantially during the war, there will be a crisis of so-called over-production. Of

course, the Indian market will not be satiated. There will be demand for goods—not only consumers' goods, but means of production also. But the factor of the limited capacity to consume will come into operation. Therefore, private industrialists, guided by profit motive, are afraid that in the post-war economic crisis they may lose everything that they stand to gain by expanding production during the war. It is natural for them to play safe. Therefore, if it entirely depended on their co-operation, the Government would not be able to meet the exigencies of war. The realisation of the importance of labour can help the Government out of this predicament. Labour, after all, is the most vital part of production. The difficulty created by the short-sightedness, if not actually selfishness, of the private industrialists can be overcome by co-operation of the Government and labour. And the vastness of Indian labour is not a negligible factor. Indeed, it may be the decisive factor.

Raw materials?

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India cannot be a reservoir of cheap labour, and yet provide a large market. There was a time when India's place in world economy was mainly that of a supplier of raw materials needed by the industrial countries. As the producer of raw materials, on the basis of a technically as well as socially backward agriculture, Indian labour remained very ill-paid. That, in its turn, placed a rigid limit to India's capacity to consume. Consequently, India's position as a part of the world market could not improve. This contradiction was realised already

before the last world war. The then Viceroy, Lord Hardinge, advised industrialisation of the country. Accordingly, an Industrial Commission was set up with the task of investigating into the possibilities. The Commission made far-reaching recommendations.

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The growth of modern industry on a large scale in any country depends primarily upon three factors. Firstly, an abundant supply of labour; secondly, accumulated wealth which could be converted into productive capital; and thirdly, a sufficiently large internal market. The first two factors are evidently in existence in India. The third factor is also there, but only potentially. Therefore, industrialisation of India, not only for her own economic advancement, but for giving the rest of the world the benefit of her vast reservoir of labour, requires a rising standard of living on the part of the bulk of her population. The present standard is set by the backwardness of agriculture, which constitutes the main sector of Indian national economy. And the backwardness of Indian agriculture is due to the established system of land-holding which, in its turn, provides a basis for colonial economy. Therefore, the Royal Agricultural Commission, sent out to India after the last world war, under the chairmanship of the present Viceroy, with the object of finding ways and means for improving Indian agriculture, made recommendations which could not be put into practice. Any investigation into the present system of land tenure and land-holding was excluded from the scope of the Commission. Consequently, it could not go to the root of the problem it was to examine.

The majority of the Indian peasants can afford neither to improve their cattle, nor to manure their land sufficiently, nor to use selected seeds, and much less to introduce any modern tools. Because, they live from hand to mouth. By far the larger portion of the fruits of their labour goes in the payment of rents, interests and a variety of other feudal charges and levies. Unless their obligations are reduced, their purchasing capacity cannot improve. And any substantial reduction of their obligations is conditional upon far-reaching agrarian reforms involving a radical readjustment of the relation of property in land and the introduction of a modern system of credit to eliminate the evil of usury, which eats into the vitals of Indian agricultural economy.

Another fundamental condition for raising the standard of living of the Indian peasantry, constituting the bulk of the population and representing practically the entire Indian social labour, is to relieve the pressure on land. At present, more people live on land than the land can support. There must be a largescale displacement of labour from agriculture to other branches of industry. That means growth of large-scale modern industry. There is the fundamental contradiction of Indian economy. It cannot be improved except through a large-scale industrialisation of the country, but the latter is not possible unless the purchasing capacity of the people is increased. Within the framework of "normal" economic relations, that is to say, production and exchange on the basis of private initiative and primarily governed by profit motive, this fundamental problem of Indian economy could not

be solved. As the stagnation of the economic life of India means a great loss for the whole world—of the benefit of the vast reservoir of Indian labour—the world must contribute to the solution of the problem.

The war has made the whole world interested in the solution of the India economic problem. It is now realised that India must become the arsenal of the East. She must produce not only everything necessary for her own defence; she will have to supply also all the other war fronts in the East. But the production of the supplies for a modern army requires a broad and deep industrial basis. Rapid and large scale industrialisation of India has become a military necessity. Thus, the economic problem, which appeared to be baffling in peace time, may at last be solved under the impact of war conditions.

Some progress has been made already. But as the Grady Mission observed, there still remains much to be done. During the first three years of the war, orders supplied from India amounted to 365 crores of rupees.

At present, the rate of monthly supplies is twenty crores of rupees. Of course, manufactured articles constitute only a part of the total supplies.

Excepting some special varieties of steel, the Indian steel industry is now able to meet nearly all the requirements of India's defence forces, with a substantial surplus for export. In addition, India exports to the United Kingdom 50,000 tons of pig iron monthly. Until recently, all steel mill rolls used to be imported from America and European countries. They are now being manufactured in India. The Tata Iron and steel

Company has installed one of the largest and most up-to-date blast furnaces in the world. Its productive capacity is 1700 tons a day. The total output of pig iron has exceeded the two million ton mark a year. A machine-tool industry is also growing. The Tatas alone are manufacturing every month 50,000 tools of different varieties. All the structural steel necessary for the expansion of Ordinance Factories is also being produced in the country. Some progress has also been made in the development of the heavy chemical industry.

But India still remains very far from being the arsenal of the East. To quote the Grady Mission Report again, "though much has been accomplished, much remains to be done before a complete mobilisation of India's resources is attained." And it must be noted that the process of anything like a complete mobilisation is very slow. Because, as the Grady Mission mentioned, there are some who "believe that maximum production has been reached under a voluntary system actuated by profit motive." If that view is taken, then India will be the Achilles, Heel of the United Nations. The world has heard and said much about the political deadlock in India. But that is only a part—a small part—of the real problem to be solved. Rapid industrial development of India is urgently needed for winning the war. But that is not possible within the framework of strictly private ownership. That is the problem. Recent events have revealed that that problem constitutes the background of the political deadlock.

The Indian industrialists do not maintain that maximum industrial production has been reached. But they do contend

that nothing more could be done, rather should be done, under "a voluntary system actuated by profit motive." That is the cardinal point of the situation. The question, therefore, is what is to be sacrificed : profit for private industrialists, or the cause of the United Nations ? That is a challenging question. It seems to have confused thought and paralysed action in higher quarters. But Indian labour does not hesitate, nor makes any mistake. It demands a heavy check on the profit motive of private industrialists, that being an essential condition for transforming India into an unshakable sector of the world war front against Fascism.

It will be premature to talk of any post-war reconstruction while the war is still to be won. The process of post-war reconstruction will be determined by doing what is necessary for winning the war. That is the immediate demand of Indian labour. It wants to make the largest possible contribution to the common cause of world labour, by helping the defeat of the Axis powers. It is not allowed to do so by the selfishness of the Indian industrialists. The same cause will deprive the world of the benefit of Indian labour after the war. Therefore, if Indian labour is to have a place in the scheme of post-war reconstruction, it must have a voice also in the conduct of the war. It demands that the recommendations of the Grady Report should be acted upon immediately, without any mental reservations. There should be co-ordination, restriction of private initiative, subordination of the profit incentive and complete concentration of the nation through its Government on the defeat of the enemy. The problem of converting

peace-time industries to war production and rapid expansion of industries to meet the demands of the war, can be solved only by a strong centralised power vested in, and exercised by, the Government. But the private industrialists in India are known to be opposed to these emergency measures. And the Government have so far failed to break down their resistance.

Are the Indian industrialists, then, not anxious to win the war? Are they not loyal to the cause of the United Nations? The critical observer cannot but have grave doubts on that score. The Indian industrialists are known to favour the Japanese method of adjusting industrial relations to feudal traditions. Those traditions may provide a moral sanction to starvation wages and low standard of living. The behaviour of some Indian industrialists during the recent period of disturbance offers a clue to the situation.

On the whole, industrial labour was not effected by the movement of protest against the arrest of the Congress leaders. With all the efforts of the National Congress as well as the Trade-Union Congress, there was no serious dislocation of transport or production, due to the workers downing tools. Dislocation of transport was invariably caused by saboteurs not belonging to the working class. The few cases of serious interference with production were engineered by the industrialists themselves, including the Tata Iron and Steel Company. Even in those cases, the workers did not fall in line willingly. Mills and plants were closed down, and all sorts of devices adopted in order to keep the workers away. The credit of

keeping Indian labour out of the sabotage movement belongs mainly to the Indian Federation of Labour.

The nearer the war comes to India, the greater would be the exigency to expand, regiment and rationalise her industries, even at the cost of private profit. Therefore, it was natural for the Indian industrialists to desire that the war should stay away from India. The imminent danger of a Japanese invasion mocked at that desire. That danger could be avoided in two ways. The way of embattling India at all cost ran counter to the interest of the private industrialists. Therefore, they were overt or covert supporters of a "National Government" to be composed of politicians who opposed India's participation in this war and made no secret of their desire to keep India out of it by coming to terms with Japan.

Indian industrialists have vehemently protested against the application of the "scorched earth" policy to India in case of an invasion. Important war industries are situated in the provinces of Assam, Bengal and Bihar, which are most threatened. Should those industries be left intact, even in the case of an invasion, because they are private property and their owners are not willing to sacrifice them, they would fall in the hands of the invader, who would thus be in a better position to carry out his plan of aggression.

That being the attitude of the industrialists, and they being the patrons of the nationalist movement, which places the particular interest of India above the common interest of the United Nations, labour becomes the only reliable factor for the defence of that threatened sector of the world war front. And

in India, in her present condition, labour means ninety per cent of the population. Since India's contribution to winning the war will be a contribution of Indian labour, her post-war reconstruction must be planned exclusively from the point of view of Indian labour. And the post-war reconstruction of India must be an integral part of the post-war reconstruction of the world.

Release of the stagnant forces of production in India is necessary not only for her post-war reconstruction and her contribution to the post-war reconstruction of the world. It is urgently needed to enable her to make the largest contribution to the cause of the United Nations. That is not possible within the limits of the so-called profit motive. For the fear of "over-production" after the war, private industrialists are opposed to the expansion of industries necessary for winning the war. Except for that imaginary prejudice to private interests at a future date, there is no other insuperable obstacle to a rapid expansion of industries in India. That only immediate obstacle can be overcome by the establishment of State control over basic industries and their rapid expansion with the help of State credit. Simultaneously, there should be an announcement of the scheme of post-war reconstruction. That may remove the fear of an imaginary over-production after the war, and place the enlightened industrialists in a more reasonable mood.

The establishment of Britain's connection with India was marked by a revolution. The relation must culminate in completing that revolution. The revolution is to clear away the ruins of a feudal social order. Unless that is done, neither will India

be able to make any substantial contribution to the victory of the cause of the United Nations, nor will be her contribution to the post-war reconstruction of the world of any great significance.

No post-war reconstruction of India will be possible within the limits of private initiative and profit motive. The basic contradiction of Indian economy can be overcome only by laying emphasis on the use-value of production. The nightmare of over-production in a country like India disappears as soon as one remembers that the primary purpose of production is to supply the needs of the community. Production primarily with that purpose need not, however, altogether eliminate profit on the part of those engaged in the process of production and distribution. Only, special circumstances may place a limit on profit. Profit motive may sometimes kill the goose which lays the golden egg. It is operating as such in India. It is restricting the expansion of production, which will surely enlarge the total volume of profit, even if its rate may have to be fixed on a lower level. It is obstructing the release of the forces of production, and consequently hindering the continuous creation of wealth. Profit may have a place in the scheme of national economy, but it should not be allowed to stifle the very life out of national economy.

Either for the immediate purpose of meeting the emergency of the war, or for the remote purpose of post war-reconstruction, one thing has to be done, to begin with. It is to increase the purchasing power of the Indian masses. It is not such a baffling problem as it has hitherto appeared to be. Expropriation is an

odious term. But in reality, it may not mean anything more obnoxious than a more equitable distribution of national wealth. There are no reliable data about India's national income. But the total income of the landowning classes has been roughly estimated at two hundred crores of rupees a year. A rough estimate can also be made of the total interest received by the usurers, who occupy a very important place in India's national economy. Now, these two sums together represent a part of national income from agriculture, which is the basic industry of the country. The total is a considerable sum, particularly when it is compared to the poverty of the average Indian peasant. This considerable sum out of the national income goes to a relatively small class of people. It would be not only morally justifiable, but economically desirable, to have this considerable slice of national income more evenly distributed. It should be possible to see that not more than, say, twenty per cent. of his net income is taken away from the peasant in the form of rent, interest and other charges. Then, the peasant will be left with a larger share of his contribution to the total national wealth. His purchasing capacity will correspondingly rise, giving an impetus to trade and industry. Expansion of industry, on the other hand, will cause displacement of labour, relieving land of the present pressure. That will be another factor to improve the economic condition of the peasantry. His purchasing power will further increase, and the impetus to trade and industry will be proportionately greater. Thus, there will be an all-round improvement, which will increase in a mathematical progression. The vicious circle will disappear.

That is the general scheme of India's post-war reconstruction, and it is easy to see how it can be fitted into a larger scheme of world reconstruction. Not only there will be no over-production in Indian industries, but a continuously expanding market will enable India to receive larger imports. There will be no competition between Indian industries and industries abroad, for the Indian market. Because, the channel of progressive industrialisation being opened to India, Indian industries will no longer be compelled only to produce consumers' goods. They will take up the production of the means of production. The kind of goods imported from abroad will also change. As Indian industries will not be able to produce capital goods in a sufficient quantity, they will be imported in the beginning without in any way injuring the industrial progress of India. An international co-operation will thus become the basis of the post-war reconstruction of the world.

The equitable distribution of national wealth suggested above will require some change in the ownership of land. The most practical and generally beneficial procedure will be for the Government to acquire the ownership of lands now held by private landlords. The compensation to be paid should be in the form of bonds, on condition that at least seventy per cent. be invested in industrial enterprises. Hoarded wealth and potential wealth will thus be converted into fluid capital invested in production. At the same time, a certain minimum control, at least of the basic industries, and of the credit institutions, will remain vested in the Government.

As a matter of fact, land ownership has become a bad

business. Although their parasitic existence is a dead weight on national economy, the landlords themselves are in a state of bankruptcy. Of course, there are some exceptions. But the fortunate are very few. Therefore, most of the landlords would welcome the procedure suggested above, which will give them the opportunity of occupying a different place in society. No harm will be done to them if they are given the opportunity of becoming industrialists instead of being parasitic owners of land. The only security needed will be against unrestricted operation of profit motive. Because, in order to industrialise India, to modernise her national economy in the shortest possible time, production should be primarily for use. That security will be guaranteed by State supervision and even control, wherever and whenever necessary. The object will be to see that profit does not absorb more than a reasonable rate of interest on investment.

But there is no sense in making this or any other scheme of post-war reconstruction, while the war is still to be won and India remains the Achilles' Heel of the United Nations. The scheme of reconstruction, therefore, should be immediately put into practice, at least partially, in order to remove the weakness of India's position. Indeed, the scheme need not be actually put into practice. But it must be framed in broad outlines, and the announcement should be made authoritatively that it will be put into practice as soon as the war will be over. The war aim will thus be concretely stated for the bulk of the Indian population. They will have something to fight for and die for.

Immediately, only some subsidiary things should be done. What is needed, is neither any formal constitutional settlement

nor any agreement with the bargaining politicians belonging to the older parties, which are all sustained by industrial interests. The bulk of the Indian population are concerned with simpler and more practical reforms which, however, are not favoured by the industrialists and their political spokesmen. Because, what is necessary to enthuse the common man in field or factory cannot be done without placing some restriction on profit motive in industry, some interference with "freedom of trade" and some encroachment generally on what is called vested interest. For one thing, the problem of food supply must be solved. It is an artificially created problem. Hoarding and profiteering by wholesale dealers and middlemen are practically nullifying all the price control measures of the Government. Again, the Government are required to choose between the commercial community and the bulk of the consumers.

The exigencies of the war are compelling the Government to place public welfare above private interest. If the Government have not yet quite decided to do so, they must make up their mind before long, because otherwise the war cannot be won. And the things necessary for winning the war will naturally determine the process of post-war reconstruction.

The principle of post-war reconstruction will thus fit in with the aspirations of labour. Indian labour, though weak and badly organised, shares that aspiration. It is identical with the aspirations of modern humanity. It is the striving for endless progress and ever greater freedom. When it is remembered that, from the dawn of civilisation, labour has been the spring of all progress, it is easy to see that labour will have the

central place in the scheme of post-war reconstruction, and Indian labour cannot be denied a share of that place.

The post-war reconstruction, such as will guarantee the realisation of the aspirations of modern mankind, will be conditional upon the creation of new wealth in order to make up for the destruction and devastations of this war. Therefore, the reconstruction will primarily be the work of labour. India, with her vast reservoir of labour, will have a correspondingly large place in that scheme.

Light, except that of the sun, may not always come from the East. But by virtue of their being vast reservoirs of labour, the so-called Eastern countries are destined to make a great contribution to the post-war reconstruction of the world. We shall need experience as well as labour. The factor of new experience may be supplied by the Soviet Union. The world has been admiring the spirit of sacrifice and power of resistance of that country, which for many years was dreaded as well as hated for having maintained that social evolution may strike out a new path. The new path is production for use. Indeed, it is not a new path. It is to remember the purpose with which mankind began its long and weary march through the ages. Private initiative may have been a socially useful factor under certain conditions. But common initiative is certainly more desirable. The experience made in the Soviet Union shows that society does not suffer a setback, man's creative genius is not discouraged in any way, if private initiative is replaced by common initiative. The unfolding of the productivity of Indian and Chinese labour on the basis of the experience of the Soviet

Union will lay down a solid foundation for a new social structure which will be the home of a human brotherhood living in peace, plenty and harmony.

Appendix A

On March 10, 1942, the Council of the London Chamber of Commerce appointed a Special Committee to consider and report on post-war reconstruction. The following are extracts from the report, which was received and adopted by the Council on May 12, 1942.

"It is widely admitted that there was something radically wrong with our economic system. It was palpably absurd that nations should be desperately anxious to export more of their real wealth to other nations than they receive in return. It was equally absurd that men in want of the necessities of life should be denied the money with which to buy them, because there was a super-abundance of those necessities, and therefore their services were not required to make more. There has not, however, been the same readiness to recognise that there must be a serious error in our economic thinking in order to produce in action absurd results.

"It is also admitted that modern technique is capable of turning out goods in quantities far in excess of those actually produced during the twenty-one years between the two wars. Since the opening of this century, the harnessing of power throughout the world for the use of man has proceeded, decade by decade, with ever increasing speed, until the age-old problem of producing enough to go round has been largely solved.

"The limiting factor in the production of real wealth has, however, been the failure to distribute to the consumers enough money to buy the potential output, and goods are not for long

produced if there are no buyers. Mass production implies mass consumption. We are driven then to investigate the mechanism for the provision of purchasing power. Whilst an amazing revolution has taken place in the science of production, no change in any way commensurate has taken place in the financial mechanism.

"The system of distributing purchasing power was evolved during an age of scarcity, that is, an age in which there were not enough goods to go round. This system aimed, therefore, at ensuring maximum production with minimum consumption. Maximum production was achieved by a complex system of cut-throat competition for cheapness, both within the nation and internationally. The nation which could induce its workers to accept the smallest reward for their labour in relation to their efficiency could, other things being equal, (e.g. equipment, transport, volume of output) undersell the other nations and compel them to lower the wages of their workers under threat of loss of markets and unemployment. In this way a downward pull was exerted on the standard of living of the masses in the advanced nations. On the other hand, the volume of output made possible by power production was exerting an upward pull, as it was clearly necessary to increase the purchasing power of the masses in order to provide buyers without which the goods would not for long be produced.

"The London Chamber of Commerce submits that it is now essential, if greater disasters are to be avoided, so to change the system as to ensure that international trade shall tend to raise the standard of living of the backward nations to that of

the advanced nations. International trade must no longer constitute a threat to the standard of living of any nation, but on the contrary must be used as a means of mutual aid and advantage to those participating in it. The outlook which expresses itself in such phrases of economic belligerency as 'capturing markets' must be changed to one of good-neighbourliness.

"The Chamber cannot therefore support any scheme which, in the economic sphere, relies upon some supra-national authority (which in practice must mean the powerful nation or nations) to dictate to the weaker nations what their internal economic policy shall be. None of the nations, by the management of its own affairs, have given any indication of being competent to manage the affairs of other nations whose conditions, aspirations and outlook would be entirely foreign to it.

"It believes, on the contrary, that the largest measure of co-operation between nations will be realised when the fear of financial and economic domination from outside is removed, and each nation is entirely free to co-operate or not as it wishes; the extent of that co-operation also being within its own control.

"Payment for the vast bulk of international trade (visible and invisible) has in the past been made by contra-account. There has, however, remained a relatively small percentage which has not been so cancelled. It has been described from the point of view of the creditor as an 'active favourable balance of payments,' and from that of the debtor as an 'unfavourable balance.'

"If some nations have 'favourable balances', it necessarily

follows that others have 'unfavourable ones.' The successful nations get others into unpayable debt. The reward of success being power over other nations, and the penalty for failure, economic servitude, the struggle for a favourable balance has largely obscured, in the eyes of the nations, the real purpose of international trade. It has accordingly degenerated into a desperate financial war.

"It is an obvious absurdity that nations should regard it as necessary to export their real wealth, not for the purpose of paying for imports, but in order to solve their domestic unemployment problem by passing it on to other countries.

"When, however, it is remembered that even wealthy nations have a large percentage of their population underfed, ill-clothed and ill-housed, it is clear that these will be the best recipients of this alleged surplus wealth. What is necessary is to improve the technique for the internal provision of money, so as to convert this Human Demand into Effective Demand.

"The Chamber considers that it is perversion of export trade to employ it for the purpose of exporting domestic unemployment and dumping it on other nations, which already have their own problems to solve. These surplus exports might confer a benefit on some countries if they were sent as a gift; and the recipient countries had an internal financial mechanism capable of distributing enough purchasing power to its people to enable them to buy excess imports of consumers goods in addition to, instead of in competition with, the goods already there. They are on the contrary used for the purpose of getting other nations into unpayable debt; and moreover, the recipient

nations have not the mechanism for distributing additional purchasing power to buy them so that they do, in fact, displace goods already in the market, and cause distress selling and a slump in prices.

"The Chamber submits that international trade must now be raised to its true function, that is, nothing more nor less than an exchange of goods and services of a mutually advantageous character.

"After the last war, there was more skilled labour in the world, more capital equipment, and more developed sources of raw material than at the beginning. The world was therefore potentially richer. Instead, however, of equating effective demand with supply,—even using it to stimulate supply—capital equipment was scrapped, the output of raw materials limited or destroyed, and millions of men were prevented from producing; in some cases they were paid not to produce.

"Instead of trying to equate supply and effective demand, the Chamber advocates that in future effective demand should be equated with supply. There can be no such thing as general over-production. The real trouble is under-consumption.

"The fundamental problems, then, which a satisfactory system must be designed to solve, are :

(1) The elimination of the fear and hostility resulting from the struggle of all nations to obtain an 'active favourable balance of payments', the penalty of the vanquished being economic servitude to the victor.

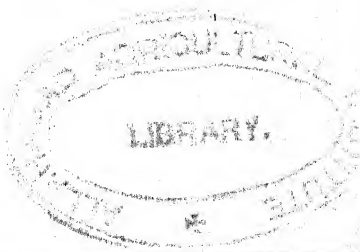
(2) The distribution internally of the purchasing power necessary to enable the nations to consume the whole of their

own production : if this were done, they could equally consume the goods of other nations which they might exchange for their own production.

"All payments between nationals of different countries for such services as shipping, insurance, interest on loans, dividends, etc., would be settled on the same principle as payment for goods, that is, the establishment of blocked credits in the country of the debtor, in favour of the country of the creditor.

"There is a general concensus throughout the country that agriculture must not again be allowed to fall into the state of decline. It is evident that after the war this country will no longer be entitled to that large tribute of food-stuffs which in the past has come each year to this country by way of interest on loans. To eliminate in Great Britain under-nutrition as well as malnutrition, an increase in home-produced food would therefore be necessary, even if in the future we could rely on the same volume of imported food-stuffs as in the past.

The Chamber therefore urges that competition for cheapness should not influence the Government in formulating a sound agricultural policy. A vast amount of nationally wealth-producing labour will be needed to remedy past neglect. It is evident that a programme on the comprehensive scale advocated could only be undertaken with Government assistance, and it is urged that, where necessary, adequate supplies of interest-free capital should be made available for the purpose."



Appendix B

The Executive Council of the Association of British Chambers of Commerce also considered the problems of post-war industrial reconstruction, and published its report on May 6, 1942. The following passages are extracted from that report.

"After the war, Great Britain will not occupy the creditor position which she formerly enjoyed. The situation will be very much changed, and in addition this country will have to face the competition of expanded, and in some cases newly created, industries in the Dominions, India and elsewhere, in countries which have hitherto been mainly agricultural and/or producers of raw materials.

"Prosperous home markets are a principal condition of sound export trade. Therefore, leading nations should strive to employ their labour resources to the full—the aim being to equate consumption with production, and not, as in the past, to restrict production to the consuming power available. In this way, the Association believes that a considerable expansion of export trade will be possible, because not only will the leading nations be prepared to import more, but also they will be able to pay fair and reasonable prices which will favourably affect the primary producing areas of the world.

"A distressing feature of the inter-war period was the economic insecurity of the wage-earners of all nations as a result of wide-spread unemployment. The goal to be aimed at throughout must be the raising of the standard of life of the people of all nations.

"The Association therefore suggests that early steps be taken to ensure the closest co-operation between the British Empire, U. S. A., Russia and all our other Allies, in a world conception of economic collaboration to provide a more equitable distribution of the food and raw materials provided by nature, and a more orderly control of the world movement of manufactured goods.

"Allied and other nations willing to co-operate should endeavour to reach agreement as to the methods to be adopted to ensure that each will distribute sufficient purchasing power internally to enable the goods awaiting consumption in their respective markets, to be consumed. If the nations can agree in operating an internal policy which will achieve this result, they will be ready and willing to receive imports in exchange for exports to raise still further their standard of living.

Appendix C

"A TWENTIETH CENTURY ECONOMIC SYSTEM."

Having considered whether there was any system which would achieve, wholly or partially, the solution of all the problems stated in the Report of the Special Committee, the London Chamber of Commerce generally accepted the principles laid down in a paper bearing the title "A Twentieth Century Economic System", which was issued with the Report anonymously with the following note: "The author has decided to remain anonymous, in the hope that his fellow-citizens will insist, on this occasion, on doing their own thinking, and will consider these proposals on their merits, uninfluenced by the names and reputations of the protagonists on either side."

The following passages are quoted from that paper.

"It is fatal to approach the problem with the mentality of the 19th century economists who assumed that the only proper objective of an economic system was to produce the maximum of real wealth with the minimum of labour, and therefore looked to division of labour carried to its extreme limits, not only as between people within the nation, but as between one nation and another.

"With the development of power production in the 20th century, the problem of producing a sufficiency for all has been largely solved, and people are no longer content to accept it as axiomatic that the be all and end all of society, in its economic aspect, is to produce a maximum quantity of goods and services.

They recognise that there are other values which they may choose in preference to still more goods and services.

"It is useless to attempt to persuade or force nations to sacrifice the economic aspirations of their people, which are clearly within their compass in the 20th century, by arguments valid in the 19th century. Industrial nations now realise that a population entirely urbanised becomes decadent, and that a healthy agricultural community is an essential stabilising factor; these are considerations which they feel outweigh the saving of labour which would be effected if they relied entirely on import of food-stuffs from countries where they could be produced with less labour. Primary producing countries, on the other hand, recognise that they can never achieve full nationhood so long as they are unable to offer to their citizens within their own borders that wide variety of occupations which modern science has made possible. Against this 20th century desire of nations for well balanced healthy and happy communities, is advanced a perfectly true, but irrelevant 19th century argument, that only by each nation specialising on what it is best able to produce and exchanging its surplus for the surpluses of other nations, can maximum wealth be produced for minimum labour. Every advanced nation has millions of people set free by labour-saving machinery, that is, unemployed, and the argument is not likely to appeal to them that they could be "free" still more if they would set their faces hard against the rising tide of 20th century economic thought and would revert to 19th century policies.

"Unless international trade is changed from a struggle by

the nations to get one another into unpayable debt, to a mutually advantageous exchange of real wealth, and unless the palpable absurdity of unemployment and poverty in juxtaposition is permanently removed, then fear, resentment and frustration, which these things have spread through the world will destroy our civilisation. Economic systems were made for men : not men for economic systems. Political freedom is not enough. Nations now realise that so long as there is financial and economic domination, political freedom is an illusion.

"We are engaged in a war which is a war of ideas. It is not enough to be negative, to expose and fight false ideas, although this is essential. When we can offer humanity a system which provides economic security and freedom, without the surrender of political freedom, as a condition, we shall have armed ourselves with so powerful a weapon of propaganda as to ensure speedy victory. We shall have captured the imagination and enthusiastic support of men everywhere. General professions of good intentions after the war will not again be accepted. The necessary changes must be made now.

"When hostilities cease, this country will find itself with its foreign investments greatly reduced, and therefore in receipt of a smaller value of imports by way of interest on those investments. Europe generally will have need of imports of all kinds. Food will be required in immense quantities. Machinery will be needed in order to change over as rapidly as possible from war to peace time production, as well as to replace that worn out during years of high pressure output, and raw materials of every description will also be needed. Until those supplies have

been received, and the change-over has been effected, neither Europe nor perhaps this country will be able to pay for its imports with export.

"During this transitional period, the United States and, in a lesser degree, other neutral countries will also be faced with an internal problem consequent upon the cessation of high-pressure production of armament. Unlike the belligerent countries, however, the U. S. A. will not have large works of reconstruction on which to employ their people. It is therefore unlikely that they will wish to add to the internal employment problem, created by the closing down of armament factories, by stopping exports to this country and Europe owing to the inability of Europe to pay with corresponding exports to them. It is on the contrary evident that they would under such circumstances not welcome imports even if they could be made.

"In short, Europe and this country will be in need of imports and may not be in a position to pay for all of them with exports. On the other hand, the United States will be in need of exports to ease their employment position at home, and for the same reason will be unwilling to take imports.

"When once the transitional period is passed, the difficulty for the countries lately at war will not be to produce enough to pay for their imports with exports, but the unwillingness of the U. S. A. to take payment in the only possible way, namely, in goods and services. This position would be immensely aggravated if, during the transitional period, the U. S. A. had insisted upon the late belligerents incurring huge financial debts to pay for their imports. Should this mistake of the last war

be repeated, European nations will have to induce the U. S. A. when once the transitional period was passed to take imports to pay for their exports, and also to take a further large volume of imports against which the U. S. A. must export nothing, in order to pay the interest on the loans.

"The wretched financial history of the twenty-one years between the two wars would be repeated. Either the European nations would have to stop imports from the creditor neutrals, whilst trying to pay the interests on debt by forcing their goods into their market, or they would have to continue to take imports on loan, so increasing the debts to the point where they would have to be repudiated. The atmosphere would again be poisoned by the mutual recriminations between debtor and creditor nations, which made amical relations impossible in the inter-war period.

"According to orthodox economic theory, a nation welcomes cheap imports, and is thereby made richer. Division of labour results in a saving of labour, but owing to labour-saving devices the advanced nations have superabundant labour, so that this argument no longer appeals as it did in the nineteenth century. Nations now prefer the luxury of a well-balanced economy, so that they can offer to their citizens within their own borders a wide choice of activities.

"Moreover, the nineteenth century system implied willingness to see a native industry ruined by cheaper imports. This involved great insecurity both for capital and labour. For labour it meant a constant threat of being out of work, and learning new trades when young, with the knowledge that when

middle-aged no new trade would bother to do the training. It meant willingness to move from one part of the country to another in search of work, with uprooting of homes, loss of friends, etc. One of the crying needs of our civilisation is the measure of material security and stability, and this system can provide neither. It ignores human nature, and will not be tolerated by the workers in the second half of the twentieth century.

"Mass production implies mass consumption, as goods are not produced for long if there are no buyers. Labour-saving machinery produces the goods, previously produced by many men who would have received wages with which to buy their own or other people's output. The machines now receive those wages in the form of interest on capital, but the machines do not consume their own output. Some of this money will no doubt come back into the hands of the workers in the form of wages for new capital production, but much of it will be used for purely financial speculation. Even when the wages of existing machines are distributed to the workers to make more machines, the problem is not solved. When completed, the new machines will facilitate the production of more consumption goods. This will necessitate a repetition of the cycle. With each turn of the wheel, the speed is increased until a major collapse occurs. The larger the total wages of all machines become, the more capital goods must be produced in the next cycle, if those wages are to be distributed to the workers who alone can consume the product of the machines. The interest on the capital represented by the machines, that is, the

machine's wages, goes to a very small section of the community which is unlikely to increase its consumption of goods and services.

"There is therefore in each nation a shortage of effective demand for the goods which the nation is capable of producing, that is, of money in the pockets of the people wanting to buy goods. The more highly developed a nation economically, the more is this so, with the result that the richer the nation the larger is its unemployment. The unemployed man has a right to say: 'Is the reason why I have to go short and why my wife and children are expected to go undernourished, badly clothed and badly sheltered, because there are not enough of these things to go round? If so, why should I not be allowed to produce more?' To this the answer must be: 'No; the reason why you must go without is not because there is not enough, but because there is too much: otherwise, you would be employed.'—'Why then,' he would ask, 'should I not be allowed to consume the too-much, and then there would not be too much, and I would be allowed to produce more?' To this the answer would be: 'But you cannot consume because you have no licences-to-consume, that is, money, any you can only obtain this by working to produce more.' 'But I am very willing to produce more.' To which again he would receive the reply, 'As I have already told you, there is over-production already, and we don't want you to produce more.'

"It is evident that, if each nation would distribute to its people internally enough purchasing power to ensure that there would be effective demand for hundred per cent. of its output,

then a nation could either consume the whole of its production, or it could exchange any percentage it chose for the production of other nations and consume that. It does not in fact welcome imports, because it does not distribute enough purchasing power internally, and imports will therefore compete with its own production for the inadequate available purchasing power. How to distribute purchasing power to the masses of the people is therefore the most pressing and urgent internal problem of every advanced nation.

"No excuse is made for having considered at some length under-consumption, which is synonymous with unemployment since it is submitted that this is a root problem which must be solved unless all hope of the survival of our civilisation is to be abandoned.

"There is a further reason why nations are anxious to export and not import. Under the existing system, the pre-occupation, in the economic sphere, of the statesmen of all nations, must be to ensure an active favourable balance of payment. If successful, a nation gets other nations into unpayable debt: if unsuccessful, other nations get it in unpayable debt. If some nations have favourable balances, other nations must have unfavourable ones. International trade has therefore degenerated into financial war instead of being an exchange of goods and services to the mutual advantage of both the parties.

"Whilst the ex-belligerents are reconstructing their countries and their industries, they will have need of imports in excess of their ability to pay in exports. During this period,

the U. S. A. and other neutrals will have to re-absorb their war workers into peace time production, and will have need of exports but not of imports. They will perhaps object, however, to extending lease-lend procedure into peace time. To float loans in the U. S. A. to pay for these surplus imports will probably be impossible, because the people would remember that they lost their money after the last war, and understand better now that they will inevitably lose it again. Even if it were possible, it would be undesirable to float loans, because it would greatly accentuate the trouble of the U. S. A., when the transitional period was passed, since they would have to adjust their economy to receive imports in payment of interest on loans as well as in payment for their exports. It would mean their having to receive imports in excess of their exports by way of interest on loan.

"It is useless to rely on appeals to creditor nations to allow their debtors to pay in goods and services; it is necessary to establish a system under which they have the option of taking goods and services or nothing.

"There are two main economic pressures, under the present system, which ensure that such appeals will fall on deaf ears. The first is the unemployment problem at home; the second, the struggle for favourable balances of payment under threat of getting into a position of unpayable indebtedness. This second pressure has resulted in international trade having become a financial war instead of, as it should be, an exchange of goods and services between the nations to their mutual advantage.

"The first essential is to establish an international trading system under which, if nations wish to take payment, they will have no option but to take it in goods and services; otherwise making a present. Such a system would have the merit of leaving each nation free to determine how much import and export trade it wished to do.

"This country, after the war, will not be entitled to receive a large volume of imports by way of interest on loans, against which therefore it has to do no corresponding export. If we cannot have the same value of imports after the war as before, it will not be because we could not very easily produce additional goods for export to pay for them, but because the late debtor nations will not be prepared to take payment in goods, because such additional imports would increase the number of goods awaiting consumption in their market, whilst the amount of purchasing power distributed would not be increased. These additional imports would in fact be in competition with the goods already in their market for such purchasing power as there was. It is therefore essential that nations should improve upon the methods for equating effective demand with supply. It is evident that the late debtor countries would very readily accept additional imports if their people had enough of their own national money to buy them—when once those imports were in their country—in addition to and not instead of, the goods already there; the problem is not insoluble.

"It must further be recognised that the Dominions, India and a number of other markets are being rapidly industrialised during the war, and they will insist upon protecting and build-

ing up their secondary industries. If then a satisfactory solution is to be reached without relations becoming strained, it is clear that this cannot be done by the methods of persuasion and conference, which proved so fruitless during the inter-war period.

"It is submitted that it is necessary to establish a system of international trade under which the problem will be fairly and squarely placed on the shoulders of each nation, as to how it proposes to take payment for its exports; if it does not take payment in from of imports, it will merely have made a present of its exports. The matter will then be one for settlement not as between nations, but within each nation as between the exporting industry, which will wish to continue export, and the new industries which will be faced by the dilemma of seeing their best customers, the export industry, ruined or allowing imports in to pay for those exports. It would no longer be possible, as in the past, to satisfy both parties by stopping the imports with tariffs so as to protect the new industries, whilst continuing to export primaries, and then, under threat of knocking down the exchange rate of the buying country, compelling it to get into unpayable debt. It is unlikely that the workers of any country would for long be content to export their real wealth and receive nothing whatever in return—not even an admission of unpayable indebtedness.

"The underlying change in the conception involved in the foregoing proposals is that action would be directed towards equating effective demand with supply, and would even sometimes be used to stimulate supply, whereas hitherto all efforts

have been directed towards equating supply with effective demand by the scrapping of useful capital equipment, the limitation of output, and the destruction of food and other material wealth, for which there was certainly a human demand, although not an effective demand.

"Primary producers are still the majority of the human race, and it is bound to cause a serious convulsion of the economic system when the prices which they obtain for their output are liable to fall so steeply and so unpredictably; whilst the prices of manufactured goods which they wish to exchange for their output do not fall correspondingly, and their fixed obligations, debts etc., do not fall at all. They find themselves able to claim, in exchange for their products, a smaller quantity of manufactured goods than before. Not only do they suffer an injustice, but the manufacturing countries with ruined customers have to restrict output and dismiss men from their employment, so again destroying effective demand. It is evident that these results follow so long as primary producers depend for the price they are paid on the haggle of the market, whereas the manufacturer charges an administered price, that is, cost of production plus profit, and will not for long produce at much less than that price.

"There are many different ways in which the primary producer could be assured, under all circumstances, a reasonable return for his labour, together with a further reward on results by way of an incentive. It is, however, evident that the extreme instability and insecurity which was so marked a feature of the old economic system, cannot be cured unless this

problem is boldly faced. The equating of effective demand with supply should ensure that never again in the future would the conscience of humanity be shocked by the spectacle of food being destroyed while people went hungry.

ERRATA

Page	Line	Correct as follows.
1	13	'Quickly' instead of 'quick'
1	19	'Quickly' instead of 'quiek'
6	12	'Vertical' instead of 'theoretical'
7	25	After the word society add 'it embraces about eighty per cent of entire population'.
11	25	'Natural' instead of natura.
12		Asterics after 17th line.
16	25	'Provincial' instead of 'provncial'
16	6	'Indian' instead of 'india'
28	17	'affected' instead of 'effected'
28	25	Delete 'including the Tata——Company'
30	1	Ninety instead of ninty
30	4	Delete 'exclusively'
33	12	'Not be' instead of 'no tbe.'
41	1	Delete the coma in the last.
41	25	'Goods' instead of 'good.'
44	4	'Competiton' instead of 'Competitnion'

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